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1986-87 ANNUAL REPORT

BRITISH COLUMBIA
FERRY CORPORATION

MINISTER'S MESSAGE

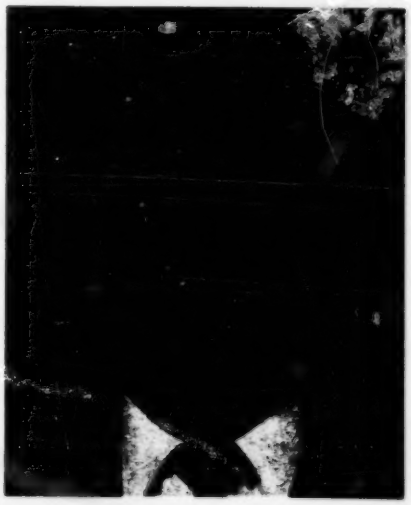
The Honourable
ROBERT G. ROGERS
Lieutenant Governor
of the Province of British Columbia

MAY IT PLEASE YOUR HONOUR

I respectfully submit herewith the Annual Report of the British Columbia Ferry Corporation for the fiscal year ended March 31, 1987 in compliance with the provisions of the Ferry Corporation Act.

Cliff Michael
Minister of Transportation and Highways
Minister Responsible, British Columbia
Ferry Corporation

June 29, 1987



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HIGHLIGHTS

Net Operating Revenue · 22.5%

Revenue increased substantially over 1985-86, by $28.2 million to $153.9 million. While approximately $3.8 million is attributed to the first full year of operation of the ex Ministry of Transportation & Highways (MoTH) group, most of the balance was gained from Expo 86 related traffic increases.

Operating Expenses · 24.9%

The provision of additional sailings and the requirement for additional ships on some routes resulted in a large increase in operating expense, somewhat ameliorated by a fuel price reduction worth approximately $5 million. In addition, the increase in operating expense attributable to the ex-MoTH services amounts to almost one-half of the total increase.

Income/Loss After Subsidy & Depreciation

The loss after Subsidy and depreciation improved from $16.7 million in 1985-86 to $9.6 million in 1986-87. While expenses grew substantially more than revenues ($36.4 million compared to $28.2 million) the increase in subsidy by $17.0 million compensated for the additional shortfall.

Total Passengers · 35.1%

The growth of 35.1% is equivalent to 4.7 million additional passenger trips. Approximately 14.7% is attributable to the ex-MoTH operation while 20.4% occurred on the pre-existing routes. Much of the latter was Expo-related travel.

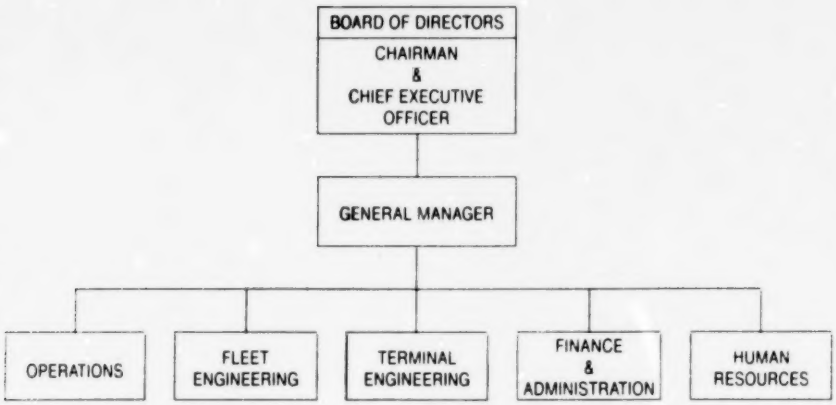
Total Vehicles · 29.2%

More than half of this growth arose from the ex-MoTH operations (801,000 trips or 15.9%). The balance of 13.3% arose in large measure from Expo 86.

Commercial Vehicles · 6.8%

Commercial traffic continues its moderate growth of recent years. These statistics do not include results for the ex-MoTH group.

ORGANIZATION



CORPORATE PROFILE

British Columbia Ferry Corporation, a Government of British Columbia Crown Corporation, was established on January 1, 1977, as the successor agency to B.C. Ferries. B.C. Ferries has existed since 1960 when the Government opened frequent ferry service between Vancouver and Vancouver Island using end-loading roll-on/roll-off vessels.

The Corporation now operates a fleet of 38 vessels on 23 routes serving 43 terminals. The company has a year round complement of 2300. During 1986-87 the Ferry System carried 18.2 million passengers and 6.5 million vehicles.

The Ferry System is an integral part of B.C.'s coastal transportation system. It links the many small islands of the Strait of Georgia to either Vancouver Island or the Mainland, and links Vancouver Island to the Lower Mainland with two separate routes. It also operates services connecting Prince Rupert, on the Province's north coast, to the Queen Charlotte Island group and to northern Vancouver Island. High standards of operation and maintenance make British Columbia's Ferry System one of the world's finest.

BOARD OF DIRECTORS

R. William Long, Chairman of the Board, was appointed in January 1987 to succeed Stuart M. Hodgson. He brings to the Corporation many years experience in municipal and Provincial administration. As Chairman of the Board, he is also Chairman of the Executive Committee.

Robert H. Wright, Vice-Chairman, has been a Director since 1981. A resident of Oak Bay, he is President of Oak Bay Marina Ltd. He is a member of the Planning Committee and the Executive Committee.

William A. Duncan was appointed a Director in 1977. Formerly responsible for urban transit operations with B.C. Hydro, he is now retired and lives in Burnaby. He is a member of the Board's Audit Committee, and is Chairman of its Finance Committee.

Dr. William R.J. Hick was appointed a Director in 1977. He is a general practitioner now retired, living in Prince Rupert. Dr. Hick is a member of the Executive Committee and the Finance Committee.

Harold J. Long was appointed a Director in November, 1986. He is a long-time resident of Powell River, and is currently the sitting Member of the Legislative Assembly for the constituency of Mackenzie.

Aimer L. Michaud has been a Director since 1977. He has been involved throughout his working life in the airline industry in British Columbia. Mr. Michaud is Chairman of the Board's Audit Committee, and is a member of the Finance and the Executive Committees. He is now semi-retired, residing in Vancouver.

Joseph Morris was appointed a Director in 1984. A past President of the Canadian Labour Congress, he is now semi-retired and lives in Saanich. He is a member of the Board's Planning Committee.

James L. Price was appointed a Director in 1984. He is a long-time resident of Powell River, where he is the owner/operator of a resort hotel. He is a member of the Board's Audit Committee.

Michael D.W. Hunter is a practising lawyer resident in Victoria, and is a former Mayor of Victoria. He has been a Director since 1981 and is Chairman of the Board's Planning Committee.

OFFICERS

R.W. Long	Chairman of the Board & Chief Executive Officer
R.H. Wright	Vice-Chairman
G. Baldwin	General Manager
P.L. Morris	Corporate Secretary

REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

To The Honourable
Cliff Michael,
Minister of Transportation
and Highways

This fiscal year was characterized by two very different events:

(a) Expo 86, involving the greatest demand the system has experienced to date.
(b) continuing integration of the former Ministry of Transportation & Highways (MoTH) services into what has now become known as the Northern Gulf Island area.

These two processes underline the dichotomy of the Corporation's service mandate — mainline Vancouver Island-Lower Mainland services using jumbo vessels to provide millions of passenger trips annually; and the small-vessel routes serving local Island communities and offering some tens of thousands of passenger trips on each route each year.

Both revenue and expenses rose in response to the requirements of Expo service. Revenue increased $28.2 million (22.5%) while operating expenses rose $36.4 million (24.9%). Some year-to-year differences are caused by this being the first full year of operation for the Northern Gulf Island and other routes acquired in October 1985. System-wide, vehicle traffic increased 29.3% to 6,525,673 and passenger traffic increased 35.1% to 18,235,182.

During 1986/87, the Corporation underwent a transition whose implications remain unknown at this time. Regrettably, President and Chief Executive Officer Admiral Andrew L. Collier (Ret.) passed away suddenly on January 3, 1987. No successor has been named, and the duties of Chief Executive are now being borne by the Chairman of the Board. This event occurred at a time which was particularly unfortunate for the organization, inasmuch as two other senior executives are scheduled for retirement early in the upcoming fiscal year.

Mr. George Baldwin, General Manager since 1982, will retire in August 1987. Mr. J. Joseph Estock, Assistant General Manager, Finance & Administration, will retire in July 1987 after 10 years as the Corporation's chief financial officer. These two changes will have significant administrative and operational consequences, the unavoidable result of changing such senior personnel. The Board anticipates that their successors will ably meet the demands imposed by the Ferry System and its users, as well as by the Board and the Shareholder.

Three broad issues are of particular concern:

(a) Those routes acquired from the Ministry of Transportation and Highways in 1985 continue to be the subject of concentrated effort. We face particular problems in these areas to bring the costs of operation into alignment with the revenue, and subsidy, which is available. Traffic demand is increasing on other minor routes, and we will be pursuing options to meet these needs.
(b) The mainline services between Vancouver Island and the Lower Mainland will also be the subject of review, as traffic demand is projected to steadily increase. We will be seeking alternatives to the present services which will allow continued increases in the supply of capacity, at economical cost, to meet public demand.
(c) The Corporation's Headquarters function will also undergo substantial revision, stemming from a management organization review (not yet complete) and from the transition to a new computer system, the implementation of which is scheduled for completion in 1989.

At this juncture in the history of the Province's Ferry System, the Board of Directors is confident that the service can continue to meet the needs of British Columbia's residents and visitors for both their commercial and recreational needs. The primary mandate, effective and efficient transportation for all users, continues to be the uppermost consideration in the deliberations of the Board.

On behalf of the Board

R.W. Long
Chairman & Chief Executive Officer

REPORT OF THE GENERAL MANAGER

The past year commenced as the year of challenge with Expo 86 setting the stage for what was to become a record-breaking year in almost all areas of the Corporation's operation.

This challenge was met by all departments in a most professional and efficient manner. The results of this achievement were reflected in the positive response received by the Corporation from the travelling public.

One of many highlights of the Expo year was the cruise aboard M.V. Queen of the North for Their Royal Highnesses, The Prince and Princess of Wales for their inaugural visit to the Expo 86 site. The vessel docked at Canada Place, making this the second Corporation vessel to use this new facility, the Queen of Tsawwassen having done so on February 19, 1986 at the official lighting ceremony of Lions Gate Bridge.

Lifeboat and liferaft drills are an important component of the crews' duties

Much preplanning had to take place to meet all target dates, handle the vast number of VIPs (both national and international), co-ordinate all facets of the operation, and ensure that all vessels were of the highest operational standard. In addition, a special private vessel charter was undertaken by the Corporation for the Vice-President of the United States, Mr. George Bush, for his attendance at Expo.

The Corporation also contributed significantly to the local economy, employing an additional 1400 casual staff members, fully outfitting three additional major vessels, and purchasing a record amount of food and food-related items.

This was also the year when the fleet recorded its 200 millionth passenger, quiet an achievement for 26 years of ferry operation.

The remainder of the year was not without its accomplishments and, on October 31, a two-year collective agreement was ratified with the British Columbia Ferry and Marine Workers Union, giving $60 per month across-the-board in the first year, and 3% in the second.

This past year can best be summed up by citing the records that were achieved beginning with the largest number of vessels ever operated at one time (39), along with the largest labour force ever assembled by the Corporation, and the largest number of passengers ever carried in any year.

These records, of course, had been expected, and to meet this challenge the department embarked on an extensive familiarization and training program.

The route between Tsawwassen and Swartz Bay continued to be the busiest route in the fleet, carrying a record 1.0 million passengers during the month of August; fleet-wide the total for this month was 2.6 million. Another significant record was the 880,590 vehicles carried during this same month.

Discussions are still ongoing with Canadian Coast Guard regarding approval of a new piece of lifesaving apparatus, the Fujikura chute system. The advantage of this system is that, in an emergency, one chute would allow passengers to disembark more rapidly than two of the existing systems.

Over the past fiscal year, Catering and Passenger Services' activities have centred on the challenge of Expo 86. Tasks such as the preparation of shipboard facilities, expansion of Catering Stores, and new uniforms were identified and completed prior to the beginning of Expo. Precise food planning was required to ensure consistent supply and price as well as provide simple, popular menu items that could be handled by new staff under peak conditions.

Sales results over the peak summer months were impressive with a total departmental revenue of $16.3 million or 47% higher than the same June-through-September period of 1985. Employee morale and passenger compliments were at an all-time high.

Of particular interest was the sales growth in the buffet area. A 40-seat expansion, combined with a new brunch concept, produced an extremely popular area with 1986 summer sales more than double those of 1985. This popular and profitable concept has now been expanded to a weekend winter months service.

Gift shops continue to show major sales growth and it is anticipated that this growth will continue into 1987.

Catering Stores are now computerized at both Swartz Bay and Departure Bay, the improved information has allowed management to develop a program that will improve our ability to satisfy the public at a reasonable cost.

This was a record-breaking year for Fleet Engineering when the full fleet of 39 vessels were dry-docked, refitted at Deas Dock, and minor modifications completed. The fact that the entire fleet operated right through the Expo period without any interruption in service speaks highly for the efficient and professional manner in which the staff performed their duties.

The Fleet Asbestos Removal Program continued on schedule and within the allotted budget. This project is keeping many contractors fully employed on what amounts to an unprecedented major asbestos removal programme undertaken by any company in Canada.

Studies are currently being conducted for proposed installation of passenger elevators on the Queen of Sidney and Queen of Tsawwassen. This has been necessitated in part because of the Queen of Sidney replacing the Princess of Vancouver on the Comox-Powell River run. The Queen of Sidney also had a third service generator fitted for operation of the bow thruster and increased electrical load.

The Queen of Alberni was modified to increase the passenger accommodation seating area, along with a new newsstand and games room facility. As a result of Canadian Coast Guard requirements, navigation lights on 20 vessels were modified.

Work undertaken in the first part of the 1986 fiscal year consisted primarily of improving the major terminals in preparation for Expo 86. This was accomplished by the repainting of terminal buildings and structures, erection of banners and flags at vehicle toll booths, and cleanup and replacement of directional signs.

Many construction improvements were also completed at this time to assist in the handling of the expected Expo 86 traffic. At Swartz Bay, these included a new bus building, a new waiting area, and the double laning of an additional upper ramp. New administration offices were constructed at Departure Bay, and at Horseshoe Bay, a third foot passenger toll booth was added along with an access stairway to and a waiting area on the upper deck level.

A concentrated effort was also made to address the most pressing maintenance work on many of the Corporation's berths. Pile driving contractors and our own crews were kept fully occupied at the five major terminals, plus a number of minor terminals, to prepare the berths for heavy summer usage.

Once the summer season was well under way, the focus of work was directed to the preparation of designs and contract documents for capital and maintenance projects to be commenced during the fall and winter period. Most notable of these is the complete rebuilding of the Campbell River Ferry Terminal. This project, initiated during 1985-86, will cost a total of $3.2 million, and will substantially improve the Corporation's ability to handle expanding needs on this route.

Also included in these modifications is a berth modification at Quathiaski Cove on Quadra Island, the replacement of the lower ramp at Berth No. 2 in Departure Bay, and expansion of the dry goods Stores at Swartz Bay.

Crofton dock was substantially rebuilt in early 1987

Finance & Administration

A major effort, undertaken in co-operation with the Provincial Purchasing Commission, achieved cost savings of $5 million through negotiation with the suppliers of diesel fuel.

Following a lengthy evaluation undertaken under the aegis of the Board of Directors, new computer systems hardware and software vendors have been selected. This is part of the Corporation's migration out of the Datapoint environment. At year-end the implementation process remained at an early stage, awaiting final decision on the Management/Organization review.

The Information-Reservation System was relocated from Vancouver to Victoria as part of the centralization of staff positions.

In concert with the Ministry of Finance, a Sale and Lease-back arrangement was negotiated for the M.V. Queen of Oak Bay, and a loan of proceeds to Provincial Treasury under a Debenture was arranged.

A tariff increase for all routes was approved by the Cabinet and was implemented on 15th February, 1987. At the same time a number of tariff concessions were standardized to effect more equitable fare structures across all routes.

Personnel

The commencement of the year saw the introduction of the SuperHost training program for every British Columbia Ferry employee who would have contact with the public and the "Welcome Aboard" smile brought tremendous returns to the Corporation during the Expo period.

This was also the year to spread the word about British Columbia Ferries as a major tourist attraction. Staff members attended more travel shows, arranged more tours for VIPs, travel agents, and media people, and worked more closely with Tourist Associations than had ever been done in the Corporation's history.

Although the hiring of personnel was completed in 1986 well before the commencement of Expo 86, a heavy work load continued with the assignment and allocation of crews throughout the summer and fall.

The ex-Ministry of Transportation and Highways staff were more closely integrated into the fleet during the year. This led to some staff reductions in the Northern Gulf Islands area that will contribute to improved cost effectiveness.

At the same time, small Personnel Offices have been opened to improve staff co-ordination at Deas Dock and Courtenay.

G Baldwin

George Baldwin
General Manager

AUDITOR'S REPORT

Thorne Ernst & Whinney

Chartered Accountants

Predecessor firms:
Thorne Riddell
Ernst & Whinney

To the Lieutenant-Governor in Council
Province of British Columbia

We have examined the balance sheet of the British Columbia Ferry Corporation as at March 31, 1987 and the statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell

May 21, 1987

As At March 31, 1987 *(expressed in thousands)*	1987	1986
Current Assets		
Cash (Note 1)	$ 10,974	$ 5,932
Accounts receivable	1,668	1,521
Inventories (Note 2)	10,565	10,590
Prepayments and deposits	1,461	982
	24,668	19,025
Reserved Funds (Notes 1 and 3)	16,790	12,260
Debenture (Note 4)	41,736	—
Fixed Assets (Note 5)		
Ships, berths, buildings equipment and land	548,349	546,648
Less accumulated depreciation	263,713	234,278
	284,636	312,370
Deferred Charges (Note 6)	4,693	5,761
	$372,523	$349,416

Approved by the Board

Director

Director

As at March 31, 1987 *(expressed in thousands)*	1987	1986
Current Liabilities		
Accounts payable and accrued liabilities	$ 26,716	$ 25,453
Deferred revenue	2,766	1,900
Current portion of long-term debt (Note 7)	5,700	—
Current portion of obligations under capital leases (Note 8)	1,128	1,025
	36,310	28,378
Long-Term Debt (Note 7)	37,558	43,258
Obligations Under Capital Leases (Note 8)	88,591	47,861
Accrued Sick Leave Liability (Note 9)	4,728	5,067
	167,187	124,564
Share Capital		
Authorized		
1,000,000 shares without par value with a maximum consideration of $100,000,000		
Issued 68,512 shares	6,851	6,851
Contributed Surplus (Note 10)	250,401	250,401
Deficit	(51,916)	(32,400)
	205,336	224,852
Commitments (Note 17)		
	$372,523	$349,416

Year Ended March 31, 1987 *(expressed in thousands)*	1987	1986
Tolls	$131,938	$108,652
Catering	30,585	22,984
Other income (Note 11)	4,050	3,264
	166,573	134,900
Less cost of food and goods sold	12,619	9,190
	153,954	125,710
Salaries, wages and benefits	113,144	90,799
Fuel and lubricants	26,922	27,316
Materials, operating supplies and services	16,437	12,011
Contracted replacements, repairs and maintenance	18,647	10,036
Marketing, general and administrative	5,580	4,628
Charter fees	1,886	1,455
	182,616	146,245
	28,662	20,535
Province of British Columbia subsidy (Note 12)	57,000	40,000
	28,338	19,465
Interest expense (Note 13)	10,387	7,132
	17,951	12,333
Depreciation	29,552	29,013
	11,601	16,680
Extraordinary item (Note 14)	1,951	-
	$ 9,650	$ 16,680

Year Ended March 31, 1987 *(expressed in thousands)*	1987	1986
Deficit at beginning of year	$ 32,400	$ 15,720
Loss for the year	9,650	16,680
	42,050	32,400
Dividend paid February 12, 1987 (Note 15)	9,866	-
Deficit at end of year	$ 51,916	$ 32,400

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended March 31, 1987 *(expressed in thousands)*	1987	1986
Cash from Operations		
Continuing operations (Note 16)	$ 20,309	$ 18,032
Extraordinary item (Note 14)	1,951	-
	22,260	18,032
Financial Activities		
Loan to Province of B.C.	(41,736)	-
Capital lease	41,756	48,619
Capital lease payments	(1,025)	-
Sinking fund payments and appreciation	(4,530)	(4,072)
Cash reserved for funding accrued sick leave liability	-	(371)
Dividend paid (Note 15)	(9,866)	-
	(15,401)	44,176
Investment Activities		
Fixed asset additions	(10,519)	(38,759)
Ships under capital lease	-	(29,460)
Disposal of fixed assets	8,702	-
	(1,817)	(68,219)
Increase (Decrease) in Cash	5,042	(6,011)
Cash at Beginning of Year	5,932	11,943
Cash at End of Year	$ 10,974	$ 5,932

Note: In this statement cash includes only cash available for day to day operations and does not include Reserved Funds cash.

Year Ended March 31, 1987

In accordance with Section 8(7) of the Ferry Corporation Act the financial statements of the Corporation are prepared in accordance with generally accepted accounting principles. Significant accounting policies adopted in the preparation of these financial statements are as follows:

Inventories are valued at the lower of cost and current replacement cost.

The Corporation records as a current year expense the estimated present value of future payments, until retirement, to employees becoming eligible under the Long-Term Disability Plan. The plan is administered by the Superannuation Branch of the Public Service Commission, who receive and invest premiums from the Corporation. The excess of the recorded liability for future payments over funds held by the Superannuation Branch is included in accrued liabilities. In prior years there was an excess of funds which was included in prepaid expenses.

Acquired from the Province of British Columbia:

Effective January 1, 1977 —

(a) Ships

Ships, which comprise part of the total assets acquired from the Province effective January 1, 1977 by Order-In-Council dated December 16, 1976 and transferred at an assigned value of $1, have been revalued by the Corporation and are reflected in the accompanying financial statements at their estimated depreciated replacement value as at January 1, 1977.

Three ships presently under charter by the Province until 1994 are subchartered to the Corporation for the same period at an annual cost of $1 each. Under the terms of the subcharter agreement with the Province, the Corporation may in 1994 request that the Province exercise its option to purchase these ships at its own expense in which case clear title to the ships will be transferred to the Corporation. Accordingly, these ships are reflected as capital assets of the Corporation in the accompanying financial statements and are stated at their estimated depreciated replacement value as at January 1, 1977.

(b) Berths, buildings and equipment

Berths, buildings and equipment transferred at an assigned value of $1 are reflected in the accompanying financial statements at their estimated depreciated replacement value as at January 1, 1977.

Effective October 1, 1983

On October 1, 1983 the remaining buildings and equipment at Deas Dock facility, not acquired from the Province on January 1, 1977 were transferred at an assigned value of $1. These assets are reflected in the accompanying financial statements at their estimated depreciated replacement value as at October 1, 1983 based upon an appraisal made by Universal Appraisal Company Limited as at that date.

Additions and disposals subsequent to January 1, 1977

The costs of major replacements, additions, extensions and improvements are capitalized in the fixed asset accounts. The costs of maintenance, repairs, minor renewals or replacements are charged against income. On retirement or disposal of fixed assets, the costs thereof and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the statement of income.

Fixed assets are depreciated on the straight line method based upon the following useful lives:

Ships	25 years
Berths	5-10 years
Buildings and equipment	4-25 years

A lease which transfers substantially all of the benefits and risks incidental to the ownership of property is accounted for as if it were an acquisition of an asset and the incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. Assets recorded under capital leases are amortized on a straight-line basis over their useful lives.

Promissory note discount is amortized on a compound interest method over the terms of the debt. Issue costs for promissory notes and capital leases are amortized on a straight-line basis over the term of the debt.

The Corporation provides for ship refit expense by charging against income the anticipated costs over the period between refits.

Certain comparative figures have been reclassified to conform with the presentation adopted for the current year.

Note 1.

Funds, other than those required for immediate settlement of liabilities, are invested in short-term commercial securities authorized pursuant to the terms and provisions of the Financial Administration Act of British Columbia. The investments are arranged through the Ministry of Finance of the Province.

Note 2.

(expressed in thousands)	1987	1986
Spare components, parts and supplies	$ 8,893	$ 8,311
Fuel and lubricants	1,089	1,480
Goods for resale and catering supplies	583	799
	$ 10,565	$ 10,590

Note 3.

The Corporation has segregated investments that are required for specific purposes or as required by long-term debt obligations.

(expressed in thousands)	1987	1986
Sinking funds for long-term debt (Note 7)		
Administered by the Province	$ 1,132	$ 724
Administered by the Corporation	10,930	6,993
	$ 12,062	$ 7,717
Fund for accrued sick leave liability (Note 9)	4,728	4,543
	$ 16,790	$ 12,260

Note 4.

8.18% Debenture with the Province of British Columbia due December 10, 2006. By agreement with the province, semi-annual payments will equal the amount required under the lease obligation for the Queen of Oak Bay (Note 8). Payments received will be applied first to accrued interest and then to principal.

Note 5.

(expressed in thousands)	1987			1986
	Cost or Appraised Value	Accumulated Depreciation	Net Book Value	Net Book Value
Ships owned	$261,202	$127,782	$133,420	$175,886
Ships under capital lease	127,744	40,429	87,315	72,074
Berths, buildings and equipment	150,824	95,502	55,322	56,105
Land	5,493	—	5,493	5,444
Construction in progress	3,086	—	3,086	2,861
	$548,349	$263,713	$284,636	$312,370

Note 6.

(expressed in thousands)	1987	1986
Long-term debt discount and expenses	$ 4,337	$ 5,494
Lease executory costs	356	267
	$ 4,693	$ 5,761

Note 7.

(expressed in thousands)	1987	1986
Long-term notes issued by the Corporation		
8.95% Promissory notes (effective rate of 15.75%), are repayable in five equal annual instalments of $5.7 million commencing March 5, 1988	$ 28,500	$ 28,500
Less current portion	5,700	—
	$ 22,800	$ 28,500
12.08% Promissory note (effective rate of 12.44%) due September 9, 2003 is repayable by annual sinking fund payments of $322,492 commencing September 9, 1984	14,758	14,758
	$ 37,558	$ 43,258

Principal and sinking fund payments due in each of the next five years:

1988	1989	1990	1991	1992
$6,022,492	$6,022,492	$6,022,492	$6,022,492	$6,022,492

The Province of British Columbia unconditionally guarantees the payment of principal and interest on the promissory notes.

Note 8.

The Corporation has obligations under capital leases for the M.V. "Queen of Oak Bay", M.V. "Queen of Surrey", M.V. "Quinsam" and automotive equipment.

(expressed in thousands)	1987	1986
Total minimum lease payments are:		
M.V. "Queen of Oak Bay"		
Implicit interest rate 8.14%	$ 98,564	$ —
M.V. "Queen of Surrey"		
Implicit interest rate 8.685%	90,578	95,065
M.V. "Quinsam"		
Implicit interest rate 13.6%	10,034	11,007
Automobile equipment		
Implicit interest rate 10%	109	165
	$199,285	$106,237
Payable in fiscal year ending in:		
1987	$ —	$ 5,518
1988	8,532	5,518
1989	8,522	5,509
1990	8,473	5,459
1991	8,473	5,459
1992	9,310	5,459
1993 and subsequent	155,975	73,315
	199,285	106,237
Less interest	109,566	57,351
Present value of net minimum capital lease payments	89,719	48,886
Less current portion	1,128	1,025
	$ 88,591	$ 47,861

Note 9.

On September 1, 1978 the Corporation introduced short-term illness and injury and long-term disability plans and as of that date all employees ceased accruing sick leave credits. Under the collective agreement with the employees, in the event of illness, the accumulated sick time may be withdrawn prior to retirement. On retirement, any balance remaining is payable in cash at 50% of accredited time.

An actuarial evaluation by Reed Stenhouse Associates Limited as at March 31, 1985 determined that the recorded liability was $1,569,000 in excess of that required. This excess has been reflected in operations over three years ended March 31, 1987.

Funds reserved for liquidation of this liability are invested in short-term commercial security (Notes 1 and 3).

Note 10.

(expressed in thousands)	1987	1986
Excess of estimated depreciated replacement value over assigned value of $1 of assets acquired from the Province of British Columbia		
— Ship, berths, buildings and equipment effective January 1, 1977	$249,674	$249,674
— Buildings and equipment effective October 1, 1983	727	727
	$250,401	$250,401

Note 11.

(expressed in thousands)	1987	1986
Parking and other income	$ 1,431	$ 1,170
Interest earned on funds in bank and investments	2,619	2,094
	$ 4,050	$ 3,264

Note 12.

The Corporation receives a subsidy from the Province of British Columbia which is determined annually.

Included in fixed assets as "ships under capital lease" are three ships leased from the Province at an annual cost of $1 each. The annual cost of these charters to the Province is $4,819,800. In addition the Corporation utilizes Crown land for terminals and highway access without rental or property taxes. The value of these benefits has not been determined. The Corporation, as an agent of the Crown, is not liable to taxation, including taxation on improvements, except insofar as the Crown is liable.

Note 13.

(expressed in thousands)	1987	1986
Interest expense, amortization of promissory note discount and amortization of debt issue cost on:		
— long-term debt and capital leases	$ 10,296	$ 6,329
— short-term borrowings	91	803
	$ 10,387	$ 7,132

Note 14.

Recovery of receivable from British Columbia Steamship Company (1975) Limited written off in Fiscal Year 1982/83.

Note 15.

The dividend was paid from the proceeds of the sale of the M.V. "Princess of Vancouver" and the extraordinary item (Note 14).

Note 16.

(expressed in thousands)	1987	1986
Loss for the year before extraordinary item	$(11,601)	$(16,680)
Items not involving cash		
Depreciation	29,552	29,013
Amortization of promissory note discount and debt issue costs	1,170	997
Decrease in accrued sick leave liability	(339)	(151)
	$ 18,782	$ 13,179
Cash generated from (used for) operating working capital		
Accounts receivable	(147)	(721)
Inventories	25	(2,032)
Prepayments and deposits	(479)	(133)
Accounts payable and accrued liabilities	1,262	7,514
Deferred revenue	866	225
Cash generated from operations	$ 20,309	$ 18,032

Note 17.

Of the income before depreciation, the Corporation has scheduled capital maintenance and extraordinary operating expenditures for modification and upgrading of:

(expressed in thousands)	
Ships	$ 6,530
Terminals	4,636
Other equipment and facilities	1,534
	$ 12,700

As at March 31, 1987 contracts awarded on a number of these projects totalled $7.4 million, of which $5.5 million remains outstanding.

CORPORATE INFORMATION

1112 Fort Street
Victoria, B.C.
V8V 4V2

Thorne Ernst & Whinney
707 Fort Street
Victoria, B.C.
V8W 3G3

Ladner Downs
2100 Pacific Centre South
700 W. Georgia Street
Vancouver, B.C.
V7Y 1A8

Royal Bank of Canada
Victoria, B.C.

Canadian Imperial Bank of
Commerce
Victoria, B.C.

Year Ended March 31 (expressed in thousands of dollars)	1987	1986	1985	1984	1983
Operating revenue — gross	166,573	134,900	125,530	120,514	110,689
Operating expense	182,616	146,245	125,308	132,553	139,013
Operating loss before subsidy	28,662	20,535	8,771	21,213	37,213
Subsidy	57,000	40,000	43,000	43,000	43,000
Cash flow from operations	20,309	18,032	28,355	17,198	(3,005)
Depreciation and amortization	29,552	29,013	31,064	30,586	34,724
Interest on debt	10,387	7,132	5,177	6,198	5,073
Working capital (deficiency)	(11,642)	(9,353)	2,536	(6,799)	(37,506)
Additions to property	1,817	68,219	12,456	7,142	26,804
Total assets	372,523	349,416	309,622	313,323	343,442
Long-term debt	37,558	43,258	43,258	43,258	28,500
Obligations under capital leases	88,591	47,861	—	—	—

Certain of the above figures for 1986 and prior years have been modified to make them comparable with the 1987 figures.

Traffic *(expressed in thousands)*					
Passengers	18,235	13,497	11,913	12,398	12,275
Vehicles	6,526	5,049	4,460	4,483	4,463
Miles					
Passengers	375,893	286,568	269,703	283,745	278,975
Vehicles	123,970	101,426	96,531	97,569	97,020
Utilization % (Note)					
Passengers	34	30	28	25	27
Vehicles	60	60	59	56	50

Note — The Utilization % calculation does not include the capacity and traffic on the Northern Gulf Island routes acquired from the Ministry of Transportation and Highways in October 1985. This statistical data was consolidated on April 1, 1987 for the 1987/88 fiscal year but is not available for prior years.

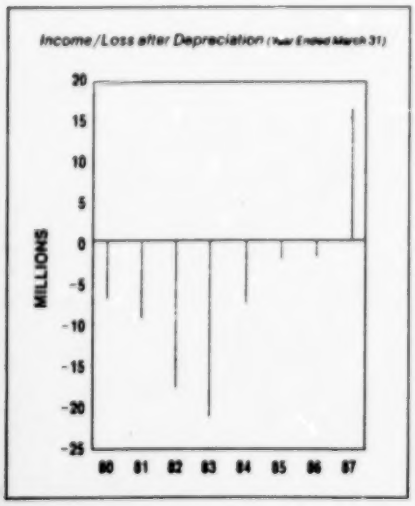
SERVICE AREAS

Queen of Victoria serving between Swartz Bay and Tsawwassen

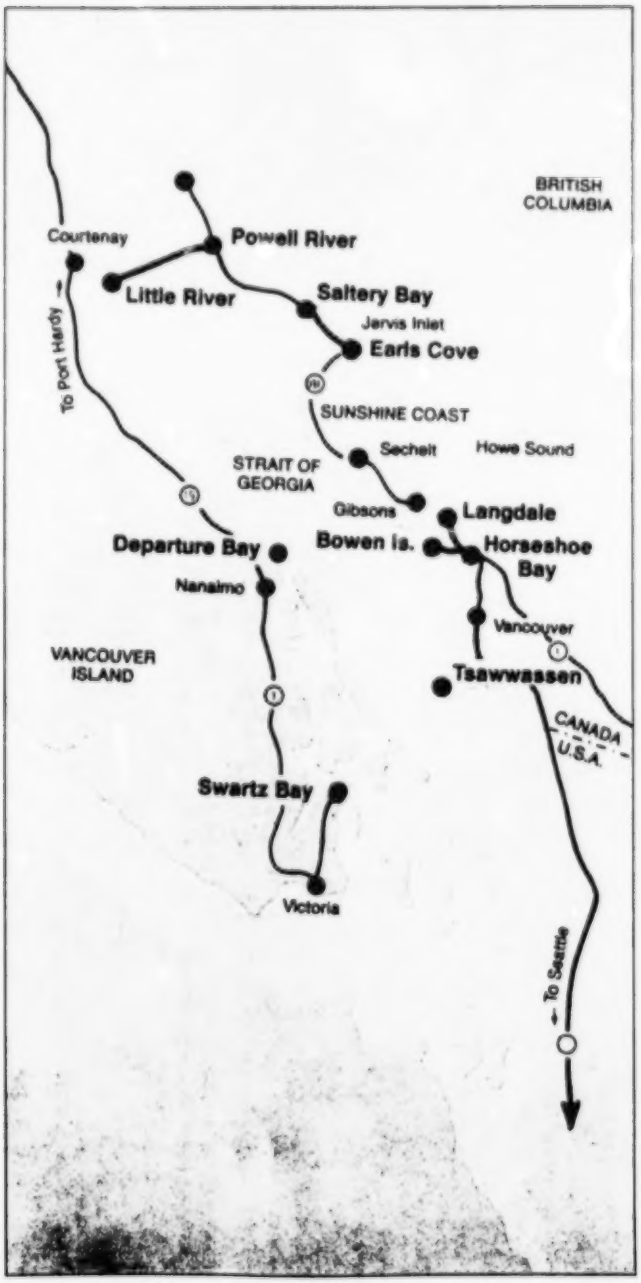
Vancouver Island

The two main routes between Vancouver Island and the Mainland offered a total of nine major vessels with a lift-off capacity of more than 2.3 million vehicles and 11.8 million passengers during the entire summer season. Although this was a special year, it is expected that this type of capacity will be required in the very near future as the Island population grows.

Due to the large volume of traffic carried on these routes, revenue continues to grow ahead of operating expenses. Because these routes received most of the additional traffic generated by Expo 86, with relatively little increase in expenses, the net gain for the area was $16.7 million.



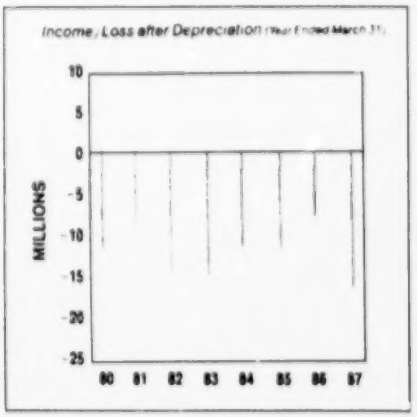
SERVICE AREAS



Sunshine Coast

Traffic on the Horseshoe Bay to Langdale route continues to exhibit a high volume of traffic on holidays and weekends, but low volume at other times. These peak traffic conditions do create traffic back-ups but they are of such short duration that additional vessel capacity is not economic.

The traffic between Powell River and Comox, and from Powell River to Texada Island, remains low, making it possible to place smaller vessels on these routes. The net loss for 1986-87 was $16.5 million.

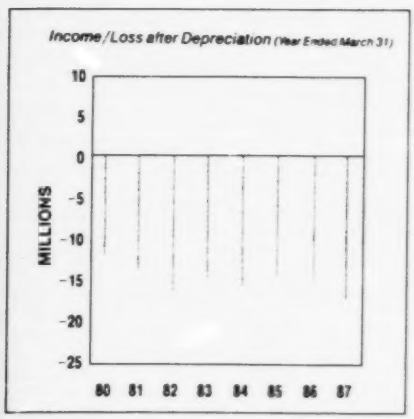


SERVICE AREAS

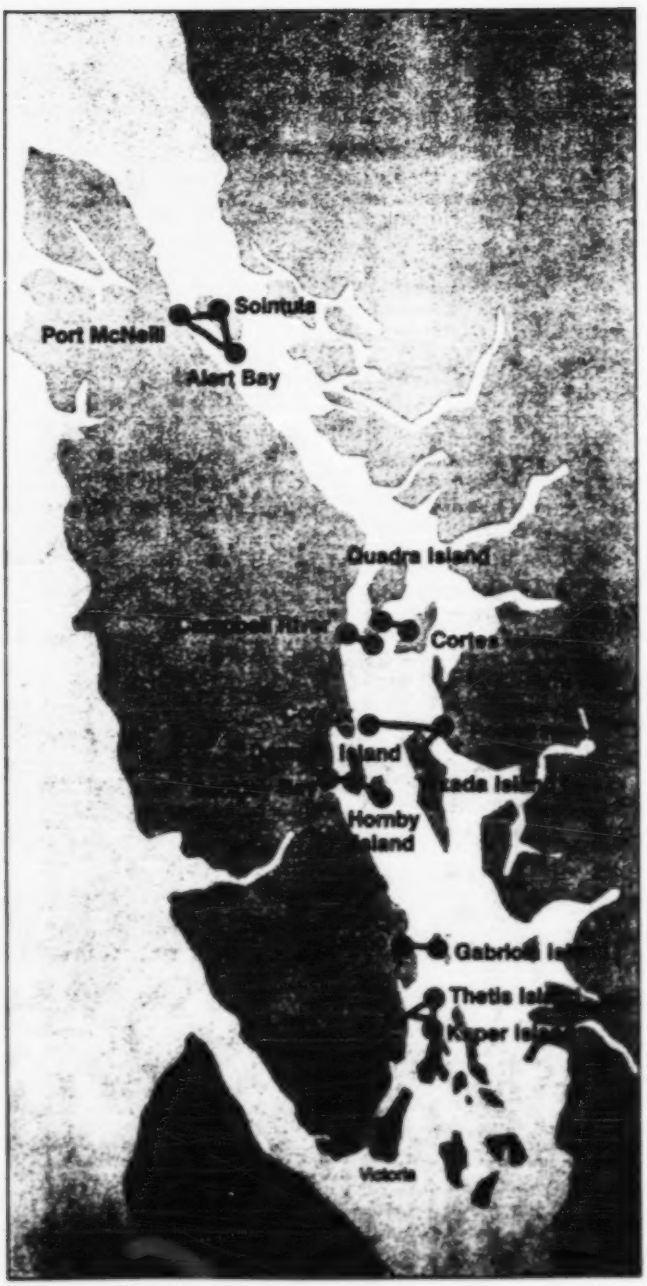
Village Bay on Mayne Island — the major terminal point for the Southern Gulf Islands

Southern Gulf Islands

The traffic on a number of these routes continues to show high volume on weekends and holidays as the people from the mainland head for their favourite parks and summer cottages. This peak loading continues to challenge the Corporation to be as innovative as possible to accommodate this traffic pattern. The net loss for the year in this area was $17.0 million, in part the result of assigning larger ships to handle Expo-related traffic as well as normal growth.



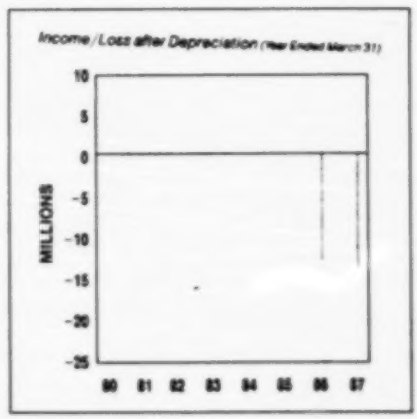
SERVICE AREAS



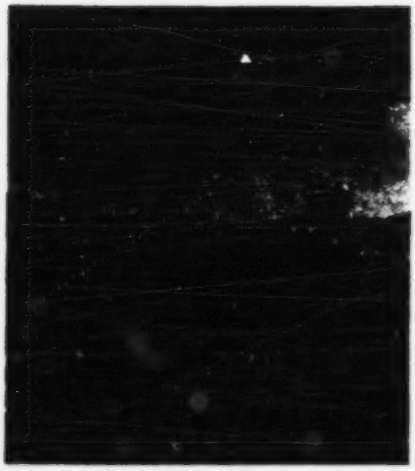
Waiting for one of the frequent sailings to Denman Island

Northern Gulf Islands

These routes were previously served by the Ministry of Highways and Transportation, but are now part of the Corporation's operation. The traffic on a number of these routes continues to increase whilst others have decreased, and this has required the re-disposition of vessels to more closely match capacity to demand. In this the first full year of operation inside the Corporation, the area incurred a loss after depreciation of $15.2 million.



SERVICE AREAS

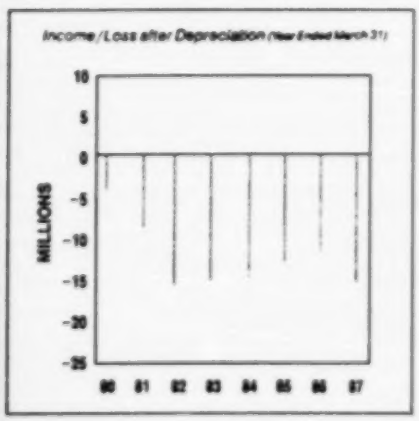


Kiyuna links Graham and Moresby Islands with frequent service

Mid and North Coast

The Alliford Bay to Skidegate route is now included in this service area. Although classed as a minor ferry, it serves an important role in linking the main north and south islands of the Queen Charlotte Island Group.

The Day Cruise service between Prince Rupert and Port Hardy continues to be very popular with the tourists, and was fully booked throughout the summer season. The area's net loss remained almost constant from 1985-86, at $14.3 million.

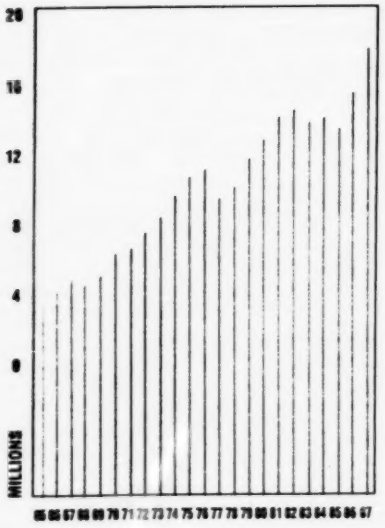


SHIPS OF THE FLEET

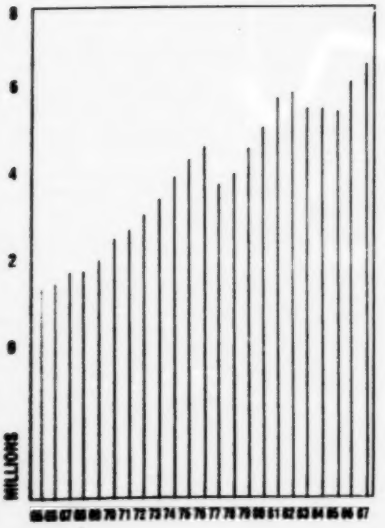
	YEAR BUILT	LENGTH (ft)	CAPACITY (autos)	CAPACITY (pass.)	TONS (gross)
C Class Ships					
Queen of Coquitlam	1976	457	362	1466	6551
Queen of Cowichan	1976	457	362	1466	6551
Queen of Oak Bay	1976	457	362	1466	6969
Queen of Surrey	1976	457	362	1466	6969
Queen of Alberni	1976	457	310	1415	5863
V Class Ships					
Queen of Esquimalt	1963	426	376	1360	5430
Queen of Saanich	1963	426	376	1360	5430
Queen of Vancouver	1962	426	286	1360	5430
Queen of Victoria	1962	426	286	1360	5430
Stretch Class Ships					
Queen of Burnaby	1965	426	192	987	4903
Queen of Nanaimo	1964	426	192	987	4939
Queen of New Westminster	1964	426	192	987	4904
Major Ships					
Queen of Sidney	1960	336	138	989	3128
Queen of Tsawwassen	1960	336	138	989	3127
Northern Ships					
Queen of The North	1969	410	135	750	8807
Queen of Prince Rupert	1966	332	80	458	5864
Minor Ships					
Powell River Queen	1965	279	70	440	1486
Howe Sound Queen	1964	241	70	400	795
Mayne Queen	1965	279	70	400	1476
Bowen Queen	1965	279	70	394	1476
Quinsam	1981	285	70	394	1458
Quinitsa	1977	245	50	294	1107
North Island Princess	1958	185	50	280	841
Queen of the Islands	1963	236	40	483	1717
Saltspring Queen	1949	145	36	187	276
Vesuvius Queen	1950	150	32	77	277
Quadra Queen II	1969	163	30	200	771
Tachek	1969	163	30	150	751
Kahloke	1973	180	30	150	466
Kitsa	1972	156	26	150	348
Kwuna	1975	180	25	150	347
Tanaka	1964	152	18	100	651
Mill Bay	1956	120	16	168	175
Nicola	1960	110	16	150	255
Albert J. Savoie	1961	110	16	150	256
Nimpkish	1973	110	16	145	266
Garibaldi II	1964	110	7	400	337
Dogwood Princess II	1979	42	0	38	21

TRAFFIC HISTORY

Total Passengers



Total Vehicles



Year End March 31	*Passengers*	*Vehicles*
1961	692,000	221,000
1962	2,040,000	697,000
1963	2,665,000	895,000
1964	3,180,000	1,034,000
1965	3,300,000	1,185,000
1966	4,000,000	1,333,000
1967	4,477,000	1,516,000
1968	4,361,000	1,530,000
1969	4,774,000	1,733,000
1970	5,671,000	2,102,000
1971	5,963,511	2,228,412
1972	6,771,837	2,552,505
1973	7,629,385	2,824,964
1974	8,538,297	3,169,582
1975	9,612,501	3,558,234
1976	9,912,738	3,760,099
1977	8,383,502	3,044,167
1978	9,018,976	3,258,017
1979	10,399,203	3,758,628
1980	11,423,405	4,161,302
1981	12,512,898	4,625,917
1982	12,763,664	4,712,951
1983	12,275,466	4,462,731
1984	12,397,905	4,482,707
1985	11,912,943	4,460,069
1986	13,497,102	5,050,165
1987	18,235,182	6,525,673
Total	216,408,515	78,882,123